Colorado Legislative Council Staff FISCAL IMPACT STATEMENT

Date: August 31, 2011 **Contact:** 303-866-3521

BALLOT TITLE: TEMPORARY TAX INCREASE FOR PUBLIC EDUCATION

| Five-Year Fiscal Impact Summary * | Total Combined Impact FY 2011-12 thru FY 2016-17 | |
|---|---|--|
| State Revenue General Fund | \$2.9 Billion | |
| State Expenditures General Fund | \$2.9 Billion | |
| School District Impact: See School District Impact section. | | |

^{*} A summary of the impact by fiscal year is provided on Page 2.

Summary of Measure

Proposition 103 increases the personal income tax rate, the corporate income tax rate, and the statewide sales and use tax rate for calendar years 2012 through 2016. The personal income tax rate and the corporate income tax rate are increased from 4.63 percent to 5.0 percent; the sales and use tax rate is increased from 2.9 percent to 3.0 percent. The additional revenue collected from these tax rate increases must be spent only for the costs of public education from pre-school through higher education, and must be over and above the amount appropriated for public education during FY 2011-12.

Background

Tax rates. The state's current income tax rate is 4.63 percent for both households and businesses, regardless of income level. In 1987, the state moved from a graduated income tax rate to a single tax rate, which was initially set at 5.0 percent. This rate was reduced to 4.75 percent in 1999, and reduced again to 4.63 percent in 2000. In 2000, the state sales tax rate was reduced from 3.0 percent to 2.9 percent. This measure increases the income and sales tax rates for five years, after which they are restored to the current rates. For instructions on estimating your annual tax changes under Proposition 103, refer to the appendix to this fiscal note.

Financing public education. Funding for public education comes from multiple sources, primarily state and local tax collections, and some federal funds. The bulk of funding is distributed under the provisions of the Public School Finance Act of 1994. Local school districts may also raise money above what is required under the act. For example, with voter approval, districts may raise and spend property taxes for operating expenses, or to enter into bonded debt for capital expenses. Districts also receive state funds through a variety of programs designed to serve special groups of students or student needs, known as categorical programs. State appropriations help fund the

Colorado Department of Education and other administrative functions, such as the Colorado Student Assessment Program.

Funding for higher education comes from tuition paid by students, and from federal, state, and in the case of district junior colleges, local tax collections. Additionally, higher education institutions obtain funds from limited gaming revenue, from foundation spending and research grants, and from fee revenue generated at higher education non-academic facilities. Although the legislature appropriates money from the General Fund for higher education, it does not appropriate tuition and other cash revenue obtained by the schools, or federal money. State appropriations support the Department of Higher Education, financial aid programs, the College Opportunity Fund, and fee-for-service contracts with the institutions of higher education.

For FY 2011-12, the state has appropriated about \$4.3 billion for public education, including \$3.7 billion for K-12 education and \$624 million for higher education. These amounts could change, for example, if mid-year adjustments are necessary to balance the budget.

State Revenue

Proposition 103 will increase state tax revenue beginning in FY 2011-12. Table 1 shows the estimated increase in individual income tax, corporate income tax, and sales and use tax collections for FY 2011-12 through FY 2016-17. Over this period of time, the measure is expected to generate a total of about \$2.9 billion.

Table 1.*
Estimated State Tax Revenue Collections under Proposition 103
(in millions of dollars)

| Fiscal Year | Individual Income Tax | Corporate Income Tax | Sales and Use Tax | Totals |
|---------------------|--------------------------|-------------------------|----------------------|---------|
| FY 2011-12 | \$193 | \$18 | \$37 | \$248 |
| FY 2012-13 | \$412 | \$43 | \$78 | \$533 |
| FY 2013-14 | \$435 | \$46 | \$81 | \$562 |
| FY 2014-15 | \$459 | \$50 | \$85 | \$594 |
| FY 2015-16 | \$485 | \$53 | \$89 | \$627 |
| FY 2016-17 | \$256 | \$28 | \$46 | \$331 |
| Five-Year Totals | \$2,240 | \$416 | \$239 | \$2,895 |

^{*}A half-year revenue impact will occur in FY 2011-12 and FY 2016-17. Estimates for the first two fiscal years are based on Legislative Council Staff revenue forecasts. Estimates for FY 2013-14 through FY 2016-17 are based on an assumed trend growth rate equal to the average annual growth in each category over the last 20 years as follows: 4.5% for sales and use taxes, 5.6% for individual income taxes, and 7.1% for corporate income taxes. Figures may not add due to rounding.

State Expenditures

Proposition 103 will increase state expenditures; however, the exact programs and amounts are unspecified. The measure sets FY 2011-12 state appropriations for public education (combined, about \$4.3 billion) as a minimum funding level for five years, and requires that new tax revenue be allocated in addition to, not as a substitute for, this amount. Although Proposition 103 requires that the new tax revenue be spent on public education, it does not specify how the money is to be split between the various preschool through high school and higher education programs. For example, the General Assembly could appropriate portions of the additional revenue to change administrative functions in the Department of Higher Education, or within the Colorado Department of Education, which could affect staffing levels in those departments. Alternatively, the legislature could appropriate the new tax revenue exclusively for the College Opportunity Fund program, in order to provide operating revenue to the institutions of higher education, or exclusively for funding K-12 education, or increasing funding for categorical programs in K-12 education.

In addition, a one-time cost of \$36,000 is anticipated to make modifications to computer systems that the Department of Revenue uses to calculate, collect, and distribute state sales and income taxes.

School District and Higher Education Institution Impact

As noted above, the measure does not specify how the additional tax revenue will be allocated among public education programs. Legislation will determine the actual allocations and may include funding for both school districts and state institutions of higher education.

Departments Contacted

Education Higher Education Revenue

Appendix Instructions on Estimating Your Annual Tax Changes under Proposition 103

Estimating your Annual income tax increase under Proposition 103

| LSU | imating your Annual metome tax merease under 11oposition 103 |
|-----|--|
| A. | Find your Colorado Taxable Income from line 14 of your most recent Colorado Individual Income Tax Return, or, for business income tax payers, line 16 of your most recent C Corporation Income Tax Return. |
| | A. |
| | A(Colorado Taxable Income) |
| В. | Multiply your Colorado Taxable Income on line A by the <u>current</u> tax rate of .0463. This is the amount of Colorado income taxes you paid on that income. |
| | B. |
| | B(Colorado Taxable Income X .0463) |
| C. | Multiply your Colorado Taxable Income on line A by the <u>proposed</u> tax rate of .05. This is the amount of Colorado income tax proposed under Proposition 103. |
| | \mathbf{C} |
| | C(Colorado Taxable Income X .05) |
| D. | Subtract line B from line C. This is the amount your income taxes will increase if Proposition 103 is approved by voters. |
| | D |
| | D |
| | te: Your most recent taxable income may not be the same amount of taxable income in future years. position 103 proposes increasing the tax rate on income for 5 years, from 2012 through 2017. |
| Est | cimating your sales tax increase under Proposition 103 |
| A. | For any purchase amount, multiply the sales price by the <u>current</u> state sales tax rate of .029. This is the amount of state sales tax you currently pay on most purchases. You also pay local sales tax, which varies by location, but is unchanged by Proposition 103. |
| | A |
| | (purchase price X .029) |
| В. | Next, multiply the sales price by the <u>proposed</u> state sales tax rate of .03. This is the amount of state sales tax you will pay if Proposition 103 is approved by voters. |
| | B. |
| | B |
| C. | Subtract line A from line B. This is the amount your state sales taxes will increase under Proposition 103. |